

**Creative Montessori Academy**

**Southgate, Michigan**

**Audited Financial Statements**

**June 30, 2007**

CROSKEY, LANNI & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## **C O N T E N T S**

	<u><b>Page</b></u>
<b>Independent Auditors Report</b>	i - ii
<b>Management's Discussion and Analysis</b>	iii - viii
<b>Basic Financial Statements</b>	
Statement of Net Assets	1
Statement of Activities	2
Combined Balance Sheet - Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 - 13
<b>Supplemental Information</b>	
Independent Auditors Report on Supplemental Information	14
Budgetary Comparison Schedule - Governmental Funds	15
Schedule of Revenues - Governmental Funds	16
Schedule of Expenditures - Governmental Funds	17 - 20
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22

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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Board of Directors of Creative Montessori Academy**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Creative Montessori Academy, as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Creative Montessori Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

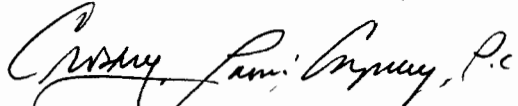
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Creative Montessori Academy as of June 30, 2007, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Creative Montessori Academy's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2007 on our consideration of Creative Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

  
Croskey, Lanni & Company, P.C.

September 15, 2007  
Rochester, Michigan

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Creative Montessori Academy's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

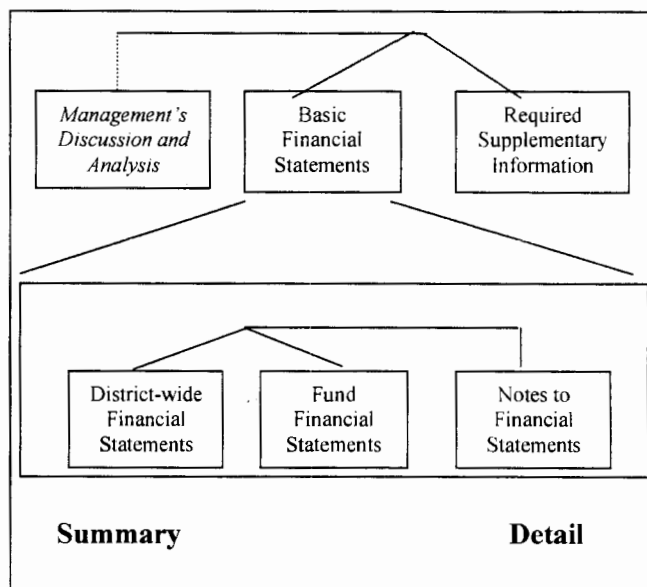
- The Academy had an increase in the general fund balance of \$160,195. This gives the Academy a general fund balance of \$1,326,632.
- The Academy invested \$155,786 in capital assets during the year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

**Figure A-1**  
**Organization of Creative**  
**Montessori Academy's Financial**  
**Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets  * Statement of activities	* Balance sheet  * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

### **Academy-Wide Statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

## **Financial Analysis of the Academy as a whole**

Net assets - the Academy's combined net assets of \$1,615,810 improved by \$284,333 during the year. See Figures A-3 and A-4.

The total revenues increased by 6% to \$5,108,299. State aid foundation allowance included in revenue from state sources accounts for 91% of the Academy's revenue. The blended enrollment increased 26 students in 2007 to 623 students. This resulted in an increase in budgeted state foundation allowance payments of approximately \$192,000.

The total cost of instruction increased by 17% to \$2,659,238. Total support services increased by 10% to \$2,018,650. Both were due to the 6% increase in enrollment and capital asset purchases.

**Figure A-3**  
**Creative Montessori Academy's Net Assets**

	<u>2007</u>	<u>2006</u>
Current assets	\$ 1,888,493	\$ 1,721,469
Capital assets, net	<u>223,805</u>	<u>300,247</u>
Total assets	2,112,298	2,021,716
Current liabilities	496,488	485,761
Total liabilities	<u>496,488</u>	<u>485,761</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	223,805	300,247
Unrestricted	<u>1,392,005</u>	<u>1,235,708</u>
Total net assets	<u><u>\$ 1,615,810</u></u>	<u><u>\$ 1,535,955</u></u>

**Figure A-4**  
**Changes in Creative Montessori Academy's Net Assets**

	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 198,739	\$ 312,274
Charges for service	280,891	239,078
General revenues:		
State aid - unrestricted	<u>4,628,669</u>	<u>4,257,143</u>
Total general revenues	<u>4,628,669</u>	<u>4,257,143</u>
Total revenues	5,108,299	4,808,495
Expenses:		
Instruction	2,659,238	2,272,741
Support services	2,018,650	1,837,352
Community services	20,459	22,507
Food services	94,372	76,011
Athletics	3,497	5,278
Interest and fees on long-term debt	-	27,151
Unallocated depreciation	<u>27,750</u>	<u>27,151</u>
Total expenses	<u>4,823,966</u>	<u>4,268,191</u>
Change in net assets	<u><u>\$ 284,333</u></u>	<u><u>\$ 540,304</u></u>



## Financial Analysis of the Academy's Funds

The financial operation of the Academy is considered stable. The general fund balance at June 30, 2007 is \$1,326,632. There was a 7% increase in general fund revenue and a 15% increase in expenditures. Both were due to the 6% increase in enrollment and capital asset purchases.

Expenditures exceeded revenues in the school service fund by \$3,898 leaving a fund balance of \$65,373.

### General Fund Budgetary Highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$12,542, the actual results for the year showed an increase in fund balance of \$160,195.

Actual revenues were \$90,099 more than budgeted primarily due to receipt of additional local funds.

Actual expenditures were \$57,554 under budget primarily due to under spending in several areas.

### Capital Asset and Debt Administration

#### Capital Assets

As of June 30, 2007, the Academy had invested \$223,805 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net increase of \$128,036 from the beginning of the year. Total depreciation expense for the year was \$27,750. More detailed information about capital assets can be found in Note 7 to the financial statements.

The Academy's capital assets are as follows:

<b>Figure A-5</b>		
<b>Creative Montessori Academy's Capital Assets</b>		
	<b>Balance June 30, 2007</b>	<b>Balance June 30, 2006</b>
Computers	\$ 68,922	\$ 53,916
Furniture and fixtures	26,857	26,857
Leasehold improvements	194,997	54,217
Total cost	290,776	134,990
Less accumulated depreciation	66,971	39,221
Net book value	<u>\$ 223,805</u>	<u>\$ 95,769</u>

## **Factors Bearing on the Academy's Future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- Changes to the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts the Academy has budgeted a reduction in foundation allowance of \$60 to \$7,087 per pupil.
- The Academy has adopted a balanced budget for 2008.

The Academy continues to place emphasis upon enrollment increases through new working strategies. Enrollment growth will be imperative in continuing financial growth, allowing for facility expansion, and offering additional programmatic opportunities.

## **Contacting the Academy's Financial Management**

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF NET ASSETS

JUNE 30, 2007

### ASSETS

#### Current Assets

Cash and cash equivalents	\$ 687,044
Due from other governmental units	941,978
Prepaid expenses	<u>259,471</u>
Total current assets	1,888,493

#### Property, Furniture and Equipment

At cost less accumulated depreciation of \$66,971	<u>223,805</u>
Total assets	<u><u>\$ 2,112,298</u></u>

### LIABILITIES AND NET ASSETS

#### Current Liabilities

Accounts payable	\$ 29,409
Other accrued expenses	<u>467,079</u>
Total current liabilities	496,488

#### Net Assets

Invested in capital assets, net of related debt	223,805
Unrestricted	<u>1,392,005</u>
Total net assets	<u>1,615,810</u>
Total liabilities and net assets	<u><u>\$ 2,112,298</u></u>

See accompanying notes to financial statements



# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 2,091,323	\$ 240,912	\$ 44,011	\$ (1,806,400)
Middle school	299,487	-	6,467	(293,020)
Preschool	106,516	-	-	(106,516)
Special education	94,148	-	26,505	(67,643)
Compensatory education	67,764	-	67,764	-
Student services	97,782	-	-	(97,782)
Staff support	165,072	-	-	(165,072)
General administration	27,165	-	-	(27,165)
Executive administration	603,683	-	-	(603,683)
Building administration	293,232	-	-	(293,232)
Lunch program	94,372	38,759	53,992	(1,621)
Athletic program	3,497	1,220	-	(2,277)
Business support services	966	-	-	(966)
Operation and maintenance	804,531	-	-	(804,531)
Central support	26,219	-	-	(26,219)
Community services	20,459	-	-	(20,459)
Unallocated depreciation	27,750	-	-	(27,750)
Total primary government	<u>\$ 4,823,966</u>	<u>\$ 280,891</u>	<u>\$ 198,739</u>	<u>(4,344,336)</u>
<b>General Purpose Revenues:</b>				
State school aid - unrestricted				<u>4,628,669</u>
Excess of revenues over expenditures				284,333
Net assets - July 1, 2006				<u>1,331,477</u>
Net assets - June 30, 2007				<u>\$ 1,615,810</u>

See accompanying notes to financial statements



# CREATIVE MONTESSORI ACADEMY

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

### ASSETS

	<u>General</u>	<u>School Service</u>
Cash and cash equivalents	\$ 625,161	\$ 61,883
Due from general fund	-	3,490
Due from other governmental units	941,978	-
Prepaid items	259,471	-
	<hr/>	<hr/>
Total assets	<u>\$ 1,826,610</u>	<u>\$ 65,373</u>

### LIABILITIES AND FUND BALANCES

#### Liabilities

Accounts payable	\$ 29,409	\$ -
Notes payable	-	-
Other accrued expenses	467,079	-
Due to school service fund	3,490	-
	<hr/>	<hr/>
Total liabilities	499,978	-

#### Fund Balances

Unreserved:		
Undesignated	1,326,632	65,373
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,826,610</u>	<u>\$ 65,373</u>

See accompanying notes to financial statements



**CREATIVE MONTESSORI ACADEMY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007**

Amounts reported for governmental activities in the statement of net assets are different because:

<b>Total Governmental Fund Balances</b>	<b>\$ 1,392,005</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$290,776 and the accumulated depreciation is \$66,971.	<u>223,805</u>
<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 1,615,810</u></u></b>

See accompanying notes to financial statements



# CREATIVE MONTESSORI ACADEMY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
<b>Revenues</b>		
Local sources	\$ 240,912	\$ 39,979
State sources	4,627,227	1,542
Federal sources	<u>146,189</u>	<u>52,450</u>
Total governmental fund revenues	5,014,328	93,971
<b>Expenditures</b>		
Elementary school	2,091,323	-
Middle school	299,487	-
Preschool	106,516	-
Special education	94,148	-
Compensatory education	67,764	-
Student services	97,782	-
Staff support	165,072	-
General administration	27,165	-
Executive administration	603,683	-
Building administration	293,232	-
Lunch program	-	94,372
Athletic program	-	3,497
Business support services	966	-
Operation and maintenance	804,531	-
Central support	26,219	-
Community service	20,459	-
Capital outlay	<u>155,786</u>	<u>-</u>
Total governmental fund expenditures	<u>4,854,133</u>	<u>97,869</u>
Excess (deficiency) of revenues over expenditures	160,195	(3,898)
Fund balance - July 1, 2006	<u>1,166,437</u>	<u>69,271</u>
Fund balance - June 30, 2007	<u><u>\$ 1,326,632</u></u>	<u><u>\$ 65,373</u></u>

See accompanying notes to financial statements

## CREATIVE MONTESSORI ACADEMY

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 156,297</b>
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 155,786	
Depreciation expense	<u>(27,750)</u>	<u>128,036</u>

<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 284,333</u></b>
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See accompanying notes to financial statements



**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 1 - Summary of Significant Accounting Policies**

The accounting policies of Creative Montessori Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

**Reporting Entity**

Creative Montessori Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1996, and began operation in July 2003.

In July 2003, the Academy entered into a five-year agreement with Choice Schools Associates, LLC. Under the terms of this agreement, Choice Schools Associates, LLC provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay Choice Schools Associates, LLC ten percent of its state school aid revenue. The total paid for these services amounted to approximately \$463,350 for the year ended June 30, 2007.

On November 8, 2000, the Academy entered into a five-year contract with Wayne County Regional Educational service agency (RESA) to charter a Public School Academy. On July 1, 2005, that contract was extended through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive State School Aid Funds pursuant to the State Constitution. The Wayne County Regional Educational Service Agency Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Wayne County Regional Educational Service agency Board of trustees 3% of State Aid as an administrative fee. The total administrative fee paid through June 30, 2005, to the Wayne County Regional Educational Service Agency Board of Trustees was approximately \$140,150.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

**Fund Financial Statements**

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to designate all of its funds as major.

**CREATIVE MONTESSORI ACADEMY**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Basis of Presentation - Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into governmental types as follows:

**Governmental Funds**

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**School Service Fund** - The school service fund is used to account for the food service program and athletic program operations. The school service fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the school service fund will be covered by an operating transfer from the general fund. The school service fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Government Wide Financial Statements**

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally, imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

**Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 1 - Summary of Significant Accounting Policies - Continued**

**Receivables**

Receivables at June 30, 2007 consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2007 and are considered current for the purposes of these basic financial statements.

**Prepaid Assets**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	5 - 15 years
Computers and software	3 - 10 years

**Intangible Assets**

Loan issuance costs are amortized on the straight-line method over its estimated useful life of twenty years.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**CREATIVE MONTESSORI ACADEMY**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 1 - Summary of Significant Accounting Policies -Continued**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 2 - Stewardship, Compliance and Accountability**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. The Academy is required by law to adopt a general fund budget. The Academy originally adopted only a general fund budget, which includes traditional debt service fund revenues and expenditures and school service fund revenue and expenditures. For the financial statement presentation these amounts are shown as a separate school service fund. During the year ended June 30, 2007 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - all governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

	<b>Budget</b>	<b>Actual</b>
<b>General Fund</b>		
Elementary school	\$ 2,049,400	\$ 2,091,323
Student services	95,200	97,782
Executive administration	597,296	603,683

**CREATIVE MONTESSORI ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 3 - Deposits and Investments**

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Depository Insurance Corporation up to \$100,000 per deposit account. The Academy's uninsured and uncollateralized cash balance as of June 30, 2007 amounted to \$616,451.

**NOTE 4 - Due from other Governmental Units**

Amounts owed from governmental units consist of the following:

State aid	\$	849,048
Federal grants		92,930
Total	\$	<u>941,978</u>

**NOTE 5 - Capital Assets and Depreciation**

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions / Deletions</u>	<u>Balance June 30, 2007</u>
Computers	\$ 53,916	\$ 15,006	\$ 68,922
Furniture and fixtures	26,857	-	26,857
Leasehold improvements	<u>54,217</u>	<u>140,780</u>	<u>194,997</u>
Total cost	134,990	155,786	290,776
Less accumulated depreciation	<u>39,221</u>	<u>27,750</u>	<u>66,971</u>
Undepreciated cost	<u>\$ 95,769</u>	<u>\$ 128,036</u>	<u>\$ 223,805</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

**NOTE 6 - Accrued Expenses**

Accrued expenses may be summarized as follows:

Management fee	\$	20,088
University oversight		25,111
Purchased services		<u>421,880</u>
Total accrued expenses	\$	<u>467,079</u>

**CREATIVE MONTESSORI ACADEMY**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 7 - Retirement Plan**

All leased employees of the Academy are eligible to participate in a retirement plan established by Choice Schools Associates, LLC which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Academy's contribution, under this plan, is a discretionary match of the employee's contribution, up to 5%. The Academy elected not to make a contribution for the year ended June 30, 2007.

**NOTE 8 - Operating Lease**

The Academy has entered into an operating lease with a third party for facilities. The lease term began on September 1, 2001 and terminates December 31, 2010 with an automatic five year renewal. The Academy is responsible for utilities, property taxes and repairs. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. Under the terms of the lease, payments may be prepaid without penalty in six-month increments at a discount rate of 4.5%. During the year ended June 30, 2007, the Academy did not take advantage of this discount. Rent is subject to an annual adjustment for each of the years and shall increase by an amount equal to 100% of the percentage change in the Consumer Price Index for the Detroit area issued by the U.S. Department of Labor Statistics. The minimum lease payments are due in the amount of approximately \$50,500 per month.

The total rent expense included in the determination of net assets for the year ended June 30, 2007 amounted to \$605,433.

Total minimum lease payments for facilities for the next four years are as follows:

2008	\$	616,298
2009		616,298
2010		616,298
2011		616,298

**NOTE 9 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since the Academy's inception.

David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA  
Clifton F. Powell Jr., CPA

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

**To the Board of Directors  
of Creative Montessori Academy**

We have audited the accompanying basic financial statements of Creative Montessori Academy for the year ended June 30, 2007. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Creative Montessori Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

  
Croskey, Lanni & Company, P.C.

September 15, 2007  
Rochester, Michigan





# CREATIVE MONTESSORI ACADEMY

## REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	<b>General Fund</b>		
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>
<b>Revenues</b>			
Local sources	\$ 83,048	\$ 195,000	\$ 240,912
State sources	4,446,472	4,593,700	4,627,227
Federal sources	119,333	135,529	146,189
Total governmental fund revenues	4,648,853	4,924,229	5,014,328
<b>Expenditures</b>			
Elementary school	1,946,757	2,049,200	2,091,323
Middle school	325,693	326,000	299,487
Preschool	-	117,000	106,516
Special education	101,082	95,690	94,148
Compensatory education	50,667	80,725	67,764
Student services	91,170	95,200	97,782
Staff support	177,984	170,771	165,072
General administration	33,500	34,800	27,165
Executive administration	579,635	597,296	603,683
Building administration	330,549	294,050	293,232
Lunch program	-	-	-
Athletic program	-	-	-
Business support services	49,400	2,330	966
Operation and maintenance	750,960	813,360	804,531
Central support	33,000	27,000	26,219
Community service	5,000	33,265	20,459
Capital outlay	159,000	175,000	155,786
Total governmental fund expenditures	4,634,397	4,911,687	4,854,133
Excess (deficiency) of revenues over expenditures	14,456	12,542	160,195
Fund balance - July 1, 2006	1,166,437	1,166,437	1,166,437
Fund balance - June 30, 2007	\$ 1,180,893	\$ 1,178,979	\$ 1,326,632

### School Service Fund

Original Budget		Final Budget		Actual	
\$	127,525	\$	127,525	\$	39,979
	-		-		1,542
	-		-		52,450
	127,525		127,525		93,971
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	122,525		122,525		94,372
	5,000		5,000		3,497
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	127,525		127,525		97,869
	-		-		(3,898)
	69,271		69,271		69,271
\$	69,271	\$	69,271	\$	65,373

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
<b>Local Sources</b>		
Food sales - students	\$ -	\$ 38,759
Program sales	-	1,220
Miscellaneous	240,912	-
	<hr/>	<hr/>
Total local sources	240,912	39,979
<b>State Sources</b>		
At risk	58,516	-
Middle school math	6,467	-
School lunch	-	1,542
Special education	(66,425)	-
State aid	4,628,669	-
	<hr/>	<hr/>
Total state sources	4,627,227	1,542
<b>Federal Sources</b>		
Drug free schools grant	1,000	-
Federal IDEA	92,930	-
National school lunch	-	52,450
Title I	45,570	-
Title II A	6,095	-
Title V	126	-
Title II D	468	-
	<hr/>	<hr/>
Total federal sources	146,189	52,450
	<hr/>	<hr/>
Total governmental fund revenues	<u>\$ 5,014,328</u>	<u>\$ 93,971</u>

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
<b>Elementary School</b>		
Purchased services - salaries	\$ 1,458,479	\$ -
Purchased services - benefits	444,819	-
Equipment supplies and materials	26,522	-
Teaching supplies and materials	100,551	-
Miscellaneous	60,952	-
	<hr/>	<hr/>
Total elementary school	2,091,323	-
<b>Middle School</b>		
Purchased services - salaries	219,301	-
Purchased services - benefits	80,186	-
	<hr/>	<hr/>
Total middle school	299,487	-
<b>Preschool</b>		
Purchased services - salaries	77,007	-
Purchased services - benefits	28,654	-
Miscellaneous	855	-
	<hr/>	<hr/>
Total preschool	106,516	-
<b>Special Education</b>		
Purchased services - salaries	72,240	-
Purchased services - benefits	19,058	-
Miscellaneous	2,850	-
	<hr/>	<hr/>
Total special education	94,148	-
<b>Compensatory Education</b>		
Purchased services - salaries	59,883	-
Purchased services - benefits	7,450	-
Miscellaneous	431	-
	<hr/>	<hr/>
Total compensatory education	67,764	-

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
<b>Student Services</b>		
Purchased services - salaries	85,505	-
Purchased services - payroll taxes	11,514	-
Miscellaneous	763	-
	<hr/>	<hr/>
Total student services	97,782	-
 <b>Staff Support</b>		
Educational media support	41,204	-
Technology	81,992	-
Training and development	41,876	-
	<hr/>	<hr/>
Total staff support	165,072	-
 <b>General Administration</b>		
Professional fees	27,165	-
 <b>Executive Administration</b>		
Management fees	463,328	-
University oversight	140,132	-
Miscellaneous	223	-
	<hr/>	<hr/>
Total executive administration	603,683	-
 <b>Building Administration</b>		
Purchased services - salaries	212,217	-
Purchased services - benefits	59,448	-
Dues and fees	1,736	-
Supplies and other	12,111	-
Workshops and conferences	4,406	-
Miscellaneous	3,314	-
	<hr/>	<hr/>
Total building administration	293,232	-

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
<b>Lunch Program</b>		
Contracted services	-	92,018
Equipment	-	989
Supplies	-	1,204
Miscellaneous	-	161
	<hr/>	<hr/>
Total lunch program	-	94,372
 <b>Athletic Program</b>		
Contracted services	-	2,156
Equipment	-	263
Supplies	-	678
Miscellaneous	-	400
	<hr/>	<hr/>
Total athletic program	-	3,497
 <b>Business Support Services</b>		
Bank fees	537	-
Interest	429	-
	<hr/>	<hr/>
Total business support services	966	-
 <b>Operation and Maintenance</b>		
Purchased services - salaries	80,325	-
Purchased services - benefits	21,138	-
Building rent	605,433	-
Liability insurance	17,431	-
Other rentals	9,952	-
Repair and maintenance	31,414	-
Supplies and miscellaneous	11,159	-
Utilities	27,679	-
	<hr/>	<hr/>
Total operation and maintenance	804,531	-

See independent auditor's report on supplemental information

# CREATIVE MONTESSORI ACADEMY

## SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>School Service</u>
<b>Central Support</b>	26,219	-
<b>Community Service</b>		
Purchased services - salaries	17,275	-
Purchased services - benefits	2,984	-
Supplies	200	-
	<hr/>	<hr/>
Total community service	20,459	-
<b>Capital Outlay</b>		
Elementary school	15,006	-
Operation and maintenance	140,780	-
	<hr/>	<hr/>
Total capital outlay	155,786	-
	<hr/>	<hr/>
Total governmental fund expenditures	<u>\$ 4,854,133</u>	<u>\$ 97,869</u>

See independent auditor's report on supplemental information



David M. Croskey, CPA  
Thomas B. Lanni, CPA  
Carolyn A. Jones, CPA  
Clifton F. Powell Jr., CPA

Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters in an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*

**To the Board of Directors  
of Creative Montessori Academy**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Creative Montessori Academy as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Creative Montessori Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Creative Montessori Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Creative Montessori Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

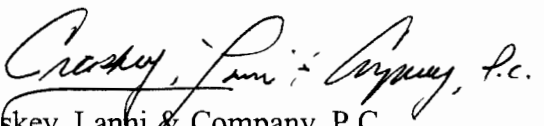
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance**

As part of obtaining reasonable assurance about whether Creative Montessori Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, the Michigan Department of Education, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

  
Croskey, Lanhi & Company, P.C.

September 15, 2007  
Rochester, Michigan